EXHIBIT 1
DATE 02/07/13
HB 2

Wilkinson, Kris

From: Dahl, Brett
Sent: Wednesday, February 06, 2013 4:36 PM
To: Wilkinson, Kris
Subject: General Fund Rate Impact Scenarios - Risk Management & Tort Defense Division
Attachments: Libby General Fund Loan.xlsx

Hi Kris,

I have reviewed your request that we assess the impact of a general fund loan on our internal service fund rates for the next 10 years, 15 years, or 20 years (attachment). Unfortunately, we are unable to provide the information that you requested because the expenses and liabilities which drive our rates (i.e. our cost drivers) cannot be projected that far in advance. These key cost drivers for the division are as follows:

1) Commercial insurance expenses - Expenses for commercial insurance over the past 10 years range from a high year of $2,900,000 to a low year of $980,000.
2) Settlements/judgments - Expenses for settlements or judgments over the past 10 years (excluding Libby) range from a high year of $9,600,000 to a low year of $1,900,000.
3) Claims liabilities - Projected claims liabilities over the past 10 years range from a high year of $28,100,000 to a low year of $15,100,000. The state's actuarial firm, Towers Watson, only projects claims liabilities four years into the future and not beyond.
4) Investment earnings - Investment earnings over the past 10 years range from a high year of $1,300,000 to a low year of $29,000 in FY 2012. The state of the U.S. economy has a big effect on the property/casualty fund's investment earnings.

The expenses associated with the underlying activities in #1 through #4 above cannot be anticipated or projected and are outside of our control.

The administration does not support a general fund loan alternative because it does not allow the Risk Management & Tort Defense Division to recover the unpaid balance of the loan (i.e. a long term liability) and the annual loan payment (i.e. an expense) in our current rates for the 2015 biennium. Further, a general fund loan imposes a $26.8 million long term liability on the division's internal service fund rates that will require us to assess large rate increases to our state and university clients for the next decade and beyond and will likely result in unfunded liabilities. We believe that a general fund loan approach is in violation of §17-8-101(6), MCA which establishes that internal service fund fees are commensurate with costs.

Under a general fund loan approach, those agencies and universities with federal or special revenue funding sources may have spending caps/limitations on their budgets so there is no guarantee that we can actually recover these additional long term expenses and liabilities through rate increases over a long period of time. State agency and university budgets are already built around the rates that were proposed to the sub-committee for the 2015 biennium (i.e. +10% Auto, -20% Aviation, +12% General Liability, +20% for Property) and are contingent upon sub-committee approval of a HB 3 supplemental appropriation. We believe this is the best approach.

We respectfully request that the sub-committee approve our rates as proposed.

Best Regards,

Brett E. Dahl, Administrator
Risk Management & Tort Defense Division
Department of Administration
Montana State Government